



Department of  
Technology Services

An Evolution of Excellence

# **DTS FINANCIAL PLAN** (Discussion Draft)

# Background

- Slow but Steady Growth in Last 3 Years
- Overall Value Created
  - Rate reductions
  - PY reduction (11.7 PY reduction from Consolidation)
  - Workload growth
  - Benchmarking in progress
- Starting New Statewide Programs
  - Email, Network, Portal, Disaster Recovery
- Cannery Relocation
- Customer Perceptions
  - Network and Storage Rates

# 3 Driving Forces

- Unpredictable Revenues
- Historic Misalignment of Rates
- Changing Federal Rules

# The Big Picture

\$ in Millions

	<b>FY 05/06</b>	<b>FY 06/07</b>	<b>FY 07/08</b>	<b>Projected FY 08/09</b>	<b>Projected FY 09/10</b>
<b>Revenue</b>	\$212.8	\$205.2	\$205.8	\$211.8	\$225.7
<b>Expense</b>	\$196.1	\$196.9	\$213.0	\$221.7	\$236.7
<b>Over/Under</b>	+\$16.7	+\$8.3	<\$7.2>	<\$9.9>*	<\$11.0>

\* Assumes 10% reduction in overhead

# History of Rate Alignment

- 1<sup>st</sup> FY 2006/07
  - \$16M Rate reduction
    - 10% Reduction in Mainframe rates
- 2<sup>nd</sup> FY 2006/07 (Mid-Year Package)
  - \$27M Rate reduction
    - 25% Reduction in Mainframe rates
    - New Network rate structure (effective 7/1/07)

# History of Rate Alignment (cont.)

- 3<sup>rd</sup> FY 2007/08
  - Rate changes with minimal revenue impact
    - Introduced Tiered Storage and zAAP Processing
    - Realignment of COM and Disaster Recovery rates to recover costs
- 4<sup>th</sup> FY 2008/09 (Proposed)
  - Proposed +\$1M Rate increase
    - Introduce Statewide Email enhancements
    - Realignment of COEMS & Print rates to recover costs

# Support of State CIO's Vision

- Four Specific Initiatives
  - Statewide Email
  - Enterprise Network
  - eServices
  - Cannery/South Annex Relocation

# Enterprise Projects & Services

(~\$10M)

- Investing for the Future
  - Enterprise Network
  - Service Oriented Architecture
  - Identity Management
  - Statewide Email (eHub, Archiving, Encryption, eDiscovery, and Active Directory)
  - Web Portal
  - Enterprise Storage
  - Service Delivery Improvement
- Training Center

# Two Issues

- Matching Revenue with Expenses
- Managing Cash (DTS Revolving Fund)

# Over/Under By Service

Projected 2008/09

## Over Collections

- Disk Storage +\$6.8M
- Mainframe +\$4.3M

## Under Collections

- Network Services -\$9.1M
- Statewide Email -\$4.1M
- Output Services -\$3.6M
- Server Based Computing -\$1.5M

# Disk Storage +\$6.8M

- Introduced Open Systems Tiered Storage effective 1/1/08
- Investigating further rate reductions for Storage in FY 2009/10

# Mainframe +\$4.3M

- Several rate reductions
- Loss of Child Support CASES
- Recent declines (August - September) possibly due to Executive Order
- Potential new revenue from new customer projects

# Network Services <\$9.1M>

- Technology Services Board approved 10% rate increase effective 7/1/07
- Backlog of upgrades
- Transition to managed service
  - Will add costs in the short run
- Migration of State Networks over next 5 years

# Email Services <\$4.1M>

- Planned Subsidization through October 2009
  - Target 45,000 mailboxes
  - Current 22,000 mailboxes
- Significant added costs due to:
  - eHub, Archiving, Encryption, eDiscovery, Active Directory and Exchange 2007 Migration

# Output Services <\$3.6M>

- Print and COM outsourced services continue to increase with each contract renewal
- Rate increases 7/1/08 for COM and proposed 1/1/09 and 7/1/09 for Print
- Move customers away from Print and COM Services
- Go Online Initiative

# Server Based Computing Services <\$1.5M>

- Need new telework strategy
- Utilization has not materialized
- Input from the Enterprise Leadership Council

# Cannery Relocation

- Estimated One-Time Costs

Data Center relocation	\$ 7.8M
Duplicate rent for transition	\$ 5.1M
New Admin site	\$ 5.7M
Duplicate Admin rent	\$ 0.9M
<b>TOTAL</b>	<b>\$19.5M</b>

- One-times to be Financed \$ 9.1M

- Ongoing

- Overall annual rent reduction \$ 2.9M

- Prepares State for Disaster Recovery

# Expenditure Recommendations

- Reduce overhead and indirect cost expenditures by 10% this year (\$4M)
- Reduce non-profitable services - Output Services, VM Processing, Human Resources Information System (HRIS), Server Based Computing, Linux on Mainframe next year (\$6M)

# Revenue Gap Options

- Need to Close the Gap
  - \$19.3M relocation and consolidation of Cannery/South Annex
  - \$9M - \$11M of annual revenue gap

# Revenue Gap Options (cont.)

- Strategy
  - Approve proposed Rate package (+\$1M)
  - Relocation and consolidation of Cannery/South Annex
    - One-time surcharge on Mainframe rates
    - Amortize one-time costs where feasible
  - Revenue gap (Effective FY 09/10)
    - Align Network rates (+20 - 25%)
    - Align Output Service rates (+100%)
    - Absorb remaining losses for FY 08/09 and FY 09/10

# Cash Management

- Average Revolving Fund - \$75M
  - On hand (\$25M)
  - Accounts Receivable (\$50M)
- Average monthly obligations
  - \$20M – 25M
- Future obligations
  - Aged Telecommunication invoices (\$8M)
  - Potential Federal liability FY 2006/07 (~\$5M - \$18M)

# Cash Flow Issues

- Accounts Receivable (A/R) average \$50M - \$80M
- On average, customers pay within 90 - 120 days
- \$3.6M/month is received from customers on direct transfer program
- Manually intense process to collect receivables

# Cash Flow Issues (cont.)

- Slow payment results in inability to pay vendors and run payroll
- Last year's large A/R forced DTS to finance a large contract that we were unable to pay. An additional \$1M expense.
- Strategy: Implement Direct Transfer

# Summary

- Action Items
  - Approve Proposed Rate Package (\$+1M)
  - Approve data center relocation one-time surcharge on mainframe rates
  - Align network rates in FY 2009/10
  - Complete alignment of Output Service rates in FY 2009/10
  - Implement Direct Transfer